

Nevada Higher Education Tuition Trust Fund

Board of Trustees

Investment Policies

May 7, 1999

These investment policies are policies of the Board of Trustees (Board) and govern the investments of the Nevada Higher Education Tuition Trust Fund (Fund). Nevada Revised Statutes (NRS) 353B.160.1 require the state treasurer (Treasurer) to follow these policies in his administration of the Fund. These investment policies may be amended from time-to-time and supplemented by Board resolutions.

It is the policy of the Board that the property of the Fund be invested by the Treasurer to earn, over time, the investment rate of return adopted by the Board. The investment rate of return is the gross return less brokerage fees and investment advisory services. This rate of return is also known as the net return. Short-term deviations from the Board adopted rate of return due to capital market conditions and prudent investment implementation strategy are acceptable. The Treasurer shall prepare an annual asset allocation plan for the Board's approval in accordance with the investment objectives stated below. The asset allocation plan shall be used by the Board to set the investment rate of return and by the Treasurer to administer the investment program of the Fund.

Notwithstanding the above, to implement the Prepaid Tuition Program and establish the first enrollment period contract rate, the initial investment earnings rate (net) was set at 7.5%. This rate shall be used to construct the initial investment portfolio in accordance with the investment objectives set forth below.

Investment Objectives:

Safety of principal, liquidity, and yield are the fundamental principles of investment management. These principles combined with capital market assumptions and permitted investments, form the basis of an asset allocation plan. The objective of an asset allocation plan is to construct an investment portfolio framework that is optimal. An optimal portfolio is one that provides the greatest expected return for a given expected level of risk, or the lowest level of risk for a given expected return. The emphasis is on expected, in recognition that investment decisions are made under conditions of risk and uncertainty. Neither the actual risk nor return of an investment decision is known with certainty at the time the decision is made. Setting an investment objective for the Fund involves either specifying an expected level of risk or the level of return or, more appropriately, a combination of risk and return.

The asset allocation plan will give appropriate consideration to the investment horizon of the assets in the Fund. While the overall average investment horizon is approximately 7 to 10 years, current liquidity and near-term liquidity is needed to pay tuition benefit

payments, administrative expenses, and potential refunds. Sufficient liquidity shall be maintained to meet anticipated cash flow requirements.

The optimal overall investment policy for the Fund will have the following characteristics:

- Maximize returns and control risk.
- Investment time horizon that is appropriate for the liabilities of the Trust
- Lower risk tolerance.
- Real total return over time equal to or greater than the rate of return used to determine tuition contract rates.
- Acceptance of short-term volatility and principal loss due to the possibility of larger gains over the investment time horizon.

Delegation:

The Treasurer is responsible for administering the Fund. He shall invest the property of the Fund consistent with these investment policies and NRS 353B.

Standard of Prudence:

The standard of prudence to be applied to the investment of the Fund is set forth in NRS 353B.160.3. The statutory standard is the equivalent of the prudent investor rule and requires that the "treasurer shall exercise the standard of care in investing the property of the fund that a person of prudence, discretion and intelligence would exercise in the management of his own affairs, given the prevailing circumstances, not in regard to speculation but rather to the permanent disposition of the property, considering the potential income from and the probable safety of his capital".

Conflict of Interest:

The Treasurer, an employee of the Treasurer, or a member or employee of the Board shall not, in accordance with NRS 353B.160.9, (a) have a direct or indirect interest in the income, gain or profit of an investment that the state treasurer makes; (b) receive pay or emolument for his services in connection with an investment that the state treasurer makes; or (c) become an endorser, surety, or obligor for money that is borrowed from the trust fund.

The Board concludes that the intent of the statutory prohibition on a direct or indirect interest in the income, gain or profit of an investment that the Treasurer makes is to prohibit realization, or the potential realization, of personal gain from the investment activities of the Fund where there is the ability to affect such gain. Therefore, there must be control or the ability to affect market influence before there can be direct or indirect interest in the income, gain or profit of an investment that the Treasurer, or anyone delegated day-to-day investment decisions, makes. The ability to affect control, within the list of permitted investments, is considered to be non-existent in the following investments: United States Treasury obligations, securities issued by an agency or instrumentality of the United States, bonds issued by the State of Nevada or a political

subdivision with a population in excess of 250,000, mutual funds registered with the Securities and Exchange Commission, participation in a defined benefit employee retirement system or a defined contribution retirement system (includes profit sharing plans) where the person does not self direct individual security selection, securities of a corporation where the individual (including immediate family) owns a total amount, at market, that is less than .05% (one-half percent) of the market value of the corporation's outstanding common stock.

The statutes further provide in NRS 353B.160.11 that the above prohibition only applies at the time an investment is originally acquired and must not be construed to require the liquidation of an investment at any time. It is the policy of the Board that such investments shall be disclosed to the Board and will become part of the Board minutes at the next meeting after disclosure.

Voting

Investment managers are responsible for voting proxies. When voting, they shall act prudently and vote the shares in the best interest of the Fund.

Brokerage and Commissions:

Transactions effected by the Treasurer will be in accordance with the State of Nevada General Fund Investment Policy as approved by the State Board of Finance.

External investment managers will use their best efforts to obtain prompt execution of orders at the most favorable prices reasonably obtainable, and in doing so, will consider a number of factors, including, without limitation, the overall direct net economic result to the Fund (including commissions, which may not be the lowest available but which will not be higher than the generally prevailing competitive range), the financial strength and stability of the broker, the efficiency with which the transaction is effected, the ability to effect the transaction, and the ability of the broker to stand ready to execute possible difficult transactions in the future.

Disposition of Investment Assets of the Fund:

The Treasurer may sell, assign, transfer, or dispose of investments of the Fund, subject to the terms of this policy and NRS 353B.160.4 in the conduct of effecting the day-to-day investments of the Fund.

Safekeeping and Custody:

Each investment of the Fund must be clearly marked to indicate ownership by the Fund (NRS 353B.160.8). All investment transactions shall be conducted on a delivery versus payment basis. All securities will be held by a third party custodian designated by the Treasurer and will be evidenced by safekeeping receipts or other forms of confirmation.

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Reporting:

The Treasurer will prepare regular reports summarizing investment activity of the portfolio. The reports will be prepared at least quarterly and will minimally provide, by asset class, the market value and cost basis of all holdings, portfolio returns compared to appropriate benchmarks, and investment activity.

Permitted Investments:

The Treasurer shall invest the property of the Fund pursuant to these investment policies and within permitted investments enumerated in NRS 353B.

Other Matters:

All other provisions of NRS 353B.150, Administration by State Treasurer; Duties and Powers of State Treasurer, and NRS 353B.160, Investment of Fund, not addressed in this policy statement must be strictly followed.

Adopted and approved by the Board of Trustees
May 7, 1999

By: _____
Laura B. Fitzpatrick, Chair